

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

Inquiry Concerning the Deployment of)	
Advanced Telecommunications to All)	
Americans in a Reasonable and Timely)	GN Docket No. 07-45
Fashion, and Possible Steps to Accelerate Such)	
Deployment Pursuant to Section 706 of the)	
Telecommunications Act of 1996)	
_____)	

COMMENTS OF PUERTO RICO TELEPHONE COMPANY, INC.

Puerto Rico Telephone Company, Inc. (“PRT”) hereby submits its comments in response to the Commission’s *Notice of Inquiry* regarding deployment of advanced telecommunications services to all Americans and, in particular, responds to the Commission’s questions regarding the challenges involved in deploying advanced services to hard-to-serve areas and to individuals living in U.S. territories.¹ As explained below, the costs of providing all telecommunications services, including broadband services, are higher in insular areas. Further, the low per-capita income of insular areas such as Puerto Rico increases the difficulty of providing widespread advanced services. Although PRT has made great strides in providing broadband services to significant portions of the island, the adoption of a non-rural, insular high-cost universal service mechanism will facilitate further deployment of both basic and advanced telecommunications services.

¹ *Inquiry Concerning the Deployment of Advanced Telecommunications to All Americans in a Reasonable and Timely Fashion, and Possible Steps to Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996*, Notice of Inquiry, GN Dkt. 07-45, FCC 07-21, ¶ 25, 27 (Apr. 16, 2007).

I. PROVIDERS SERVING INSULAR AREAS FACE UNIQUE CHALLENGES TO OFFERING BASIC AND ADVANCED SERVICES.

As the Commission has recognized² and PRT has illustrated in its support for the proposed insular high cost mechanism,³ telecommunications providers face unique challenges in deploying their services in insular areas. For a number of reasons, the costs of providing service in insular areas are very high and far exceed similar costs on the mainland. First, the geographic isolation of insular areas requires that nearly all materials be shipped into the islands, significantly increasing costs and delaying deployment. Second, environmental factors – including the harsh sea air and frequent tropical storms and hurricanes – erode and damage equipment and make recurrent repairs a necessity. Finally, hilly terrain and dense, fast-growing vegetation in some areas lead to additional construction costs. These conditions also contribute to a lack of basic infrastructure necessary to support telecommunications construction, including roads and electricity.

The demographic realities of insular areas also affect the penetration of services in insular areas and depress the demand for advanced services. Based on 2005 data from the American Community Survey, the median household income of Puerto Rico was \$17,184, less than 55 percent of the median household income in the lowest U.S. state.⁴ The cost of living, by contrast, is among the highest in the United States, leading to a lack of disposable income.⁵ This

² *Federal-State Joint Board on Universal Service*, Notice of Proposed Rulemaking, 20 FCC Rcd 19731, 19746 (¶ 33) (2005) (“*Insular Mechanism NPRM*”).

³ Comments of PRT, CC Dkt. No. 96-45, WC Dkt. 05-337 (Mar. 27, 2006) (“*PRT Insular Comments*”).

⁴ See United States and States – R.2001. Median Household Income, American Community Service at http://factfinder.census.gov/servlet/GRTTable?ds_name=ACS_2005_EST_G00_&format=US-30&_box_head_nbr=R2001&_lang=en (indicating that the median household income in Puerto Rico is \$17,184, while the median household income of Mississippi is \$32,938).

⁵ See “*Report: Sao Paulo, Rio most expensive cities in Latin America*,” Juan Pablo Toro,

lack of disposable income leaves residents unable to afford basic telephone service, and, as a result, Puerto Rico has telephone penetration rates significantly lower than even the lowest states. Data from 2005 place telephone penetration in Puerto Rico at 73.8% of households, compared to 89.6% in Mississippi and 90.9% in Arkansas, the two lowest states in terms of penetration.⁶ PRT's own estimates place penetration at approximately 70%, with many parts of the island well below this percentage. Moreover, because even small, incremental price increases could lead to subscribers cancelling service, providers are unable to raise rates in order to fund infrastructure improvements.

Inadequate disposable income even more significantly affects the ability of consumers to purchase more expensive advanced services. The smaller base of potential customers who can afford broadband service increases the costs of deployment because the fixed costs of providing advanced services like DSL are spread over fewer customers. In addition, the interior of Puerto Rico and its smaller island municipalities are sparsely populated, making deployment of advanced services like DSL particularly difficult because they can only be reliably provided only within limited distances from a central office. For these reasons, providers serving insular areas face unique challenges in provisioning both basic and advanced services.

II. DESPITE THE CHALLENGE OF SERVING AN INSULAR AREA, PRT HAS MADE SIGNIFICANT PROGRESS IN DEPLOYING BROADBAND SERVICES.

Although PRT faces substantial roadblocks to widespread penetration of advanced services, PRT made considerable improvements in the availability of such services on the island. At the end of 2006, PRT had 115,000 DSL customers, an increase of 38,000 subscribers over the

The Associated Press, June 27, 2006 (stating that cost of living in San Juan, Puerto Rico was the highest in the Caribbean and Central American regions and the 55th highest in the world because of "inflation and the revaluation of the dollar").

⁶ See *Trends in Telephone Service*, Industry Analysis and Technology Division, Wireline Competition Bureau, at Table 16.5 (Feb. 2007).

previous year.⁷ In addition to wireline broadband, PRT has begun to provide 3G service to wireless subscribers via CDMA/EVDO technology in most of the extended metro area, including San Juan, Bayamon, Guaynabo, Trujillo Alto, Carolina, Dorado, Caguas and other parts of the island.⁸ PRT has plans to continue to add EVDO services in the coming year. In all, PRT's broadband penetration rate is approximately 13%.

Going forward, PRT's new parent company, América Móvil, is committed to increasing access to 3G wireless services. América Móvil plans to invest approximately \$280 million in the next three years to upgrade and maintain wireless services, including 3G.⁹ Specifically, América Móvil intends to maintain the EVDO network, overlay a GSM/EDGE/UMTS/HSPA network, increase the number of micro-cells to provide better in-building coverage, and add cells sites in some areas not currently covered by wireless services.¹⁰ América Móvil has experience in providing wireless services in areas with high population density and low population density, and will use this experience to improve broadband wireless coverage and service quality in Puerto Rico.

III. CREATION OF AN INSULAR, HIGH-COST MECHANISM REMAINS AN IMPORTANT STEP TO INCREASING BOTH BASIC TELEPHONE SERVICE AND BROADBAND PENETRATION IN NON-RURAL INSULAR AREAS LIKE PUERTO RICO.

While PRT and its new parent company plan to spend significant sums of money to increase the deployment of broadband services, the Commission can further assist deployment of basic and advanced services by non-rural insular carriers like PRT by adopting a high-cost

⁷ See Telecomunicaciones de Puerto Rico, Inc., SEC Form 10-K at 6 (Mar. 30, 2007).

⁸ See Response to Request for Information filed by América Móvil, WC Dkt. No. 06-113, at 2 (Nov. 28, 2006) ("América Móvil Response").

⁹ América Móvil has committed to invest \$1 billion in Puerto Rico over the next five years.

¹⁰ América Móvil Response at 2-3.

universal service funding method for these carriers. PRT has demonstrated the need for such a mechanism, showing that the penetration of basic telephone services in Puerto Rico has declined since the elimination of high-cost support to PRT.¹¹ Moreover, the Commission has tentatively concluded that such a mechanism should be adopted.¹² PRT urges the Commission to move swiftly to adopt and implement an insular mechanism so that carriers in insular areas can continue to invest in infrastructure and development.

An insular funding mechanism will assist PRT and other non-rural insular providers by helping to offset the very high costs of deploying local loop facilities. Because local loop facilities can be used both for regular telephone services and for DSL services, the insular high-cost mechanism will help to increase the penetration levels of advanced services. The Commission has recognized the critical need for advanced services to spur economic development. Indeed, the Joint Board recently requested comment on whether broadband service itself should be a supported service.¹³ Adoption of an insular mechanism will have the ancillary effect of advancing these goals.

IV. CONCLUSION

Telecommunications carriers serving insular areas face distinct and significant challenges in deploying both basic and advanced services to customers. PRT has worked hard to introduce advanced services to the residents of Puerto Rico, and it plans to continue to maintain, upgrade, and extend the services that it currently provides. However, the adoption of a non-rural insular mechanism is essential to ensure that insular carriers, like PRT, are able to offer advanced

¹¹ See Declaration of Harold Furchtgott-Roth, Attached to PRT Insular Comments as Appendix B, at 7-8.

¹² *Insular Mechanism NPRM*, 20 FCC Rcd at 19746 (¶ 33).

¹³ FCC Public Notice, Federal-State Joint Board on Universal Service Seeks Comment on Long Term, Comprehensive High-Cost Universal Service Reform, WC Docket No. 05-337, CC Docket No. 96-45 at 4-5 (May 1, 2007).

services throughout their service area and that insular consumers are able to enjoy the many opportunities and benefits of these services experienced by consumers in the rest of the United States. PRT accordingly urges the Commission to move swiftly to adopt and implement an insular mechanism.

Respectfully submitted,

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Dated: May 16, 2007